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HB 598

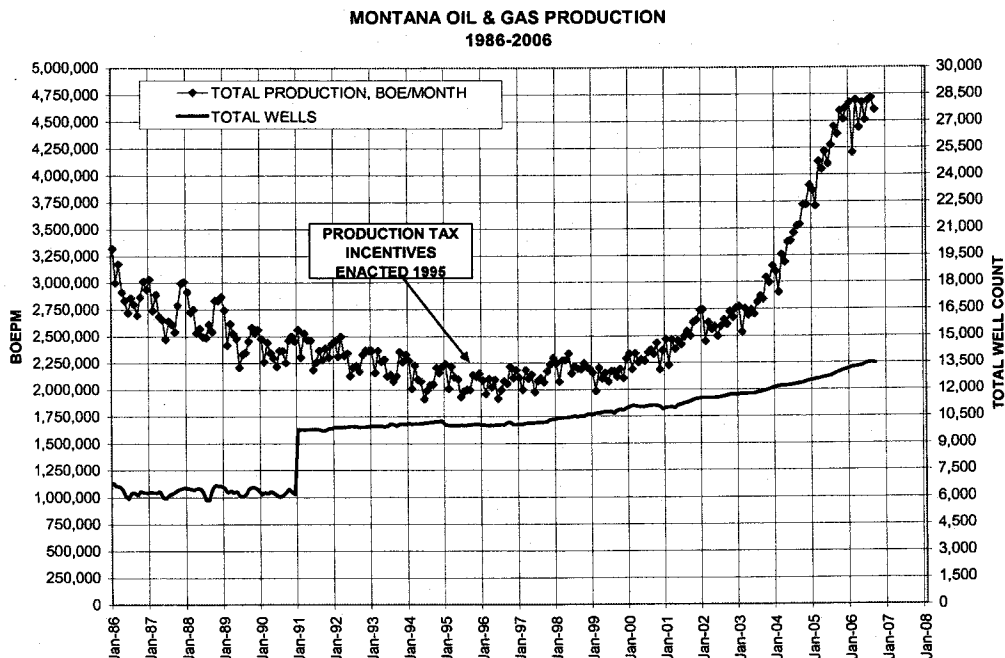
House Taxation Committee Hearing
RE: HB 598

Chairman Lake and Members of the Committee:

I am writing in opposition to HB 598 which will change the production tax rates on oil and gas wells drilled in the State of Montana and changes the formula by which oil and gas taxes are distributed to the counties. I have worked for Nance Petroleum Corporation in Billings for 13 years. Nance Petroleum is a Montana based company with over 90 employees based in the State. Nance has been an active driller in the State since the early 1970's and is currently the 6th largest oil producer in Montana. I have summarized my thoughts regarding the importance of the current incentives to my industry:

OIL & GAS EXPLORATION IS A RISKY AND EXPENSIVE BUSINESS

- A single well in MT can cost more than \$5 million.
- There is always risk of drilling a dry hole or uneconomic well. Even good wells can take several years to pay out the initial capital investment.
- Oil prices both nationally and locally are VOLATILE. Recent wellhead prices in the Williston Basin have been as high as \$28/barrel less than the posted NYMEX West Texas Intermediate Price due to local supply impacts and transportation bottlenecks.
- The current oil and gas tax incentives have been effective in creating a supportive environment for investment in the oil and gas industry in Montana through both high and low oil price environments.
- A graph of MT oil and gas production since 1986 demonstrates the impact of the tax incentives on oil and gas drilling:



- The current production tax incentives on both vertical and horizontal wells are very important during the early phases of production to bolster economic returns and reduce the risk of drilling very expensive wells.

OIL & GAS WELL PRODUCTION DECLINES NATURALLY OVER TIME

- Oil and gas reservoirs are finite in size and are subject to pressure depletion and/or water influx.
- Large fields such as Elm Coulee have greatly benefited the taxpayers of this State through production, property, and income taxes.
- Elm Coulee Field covers a large area of Richland County that had been thoroughly drilled and tested since the 1980's, but the Bakken formation remained largely untapped until 1999 when horizontal drilling, fracture stimulation technology, and **tax incentives** allowed for economic recovery of the reserves.
- As Elm Coulee drilling opportunities decrease and production flattens and begins to decline, oil and gas operators are striving to expand the productive area using new technology and are also looking for other areas and geologic targets to develop.
- **Reducing the tax incentives as proposed by HB 598 discourages new development in the State at exactly the time when we need to encourage more exploration to replace declining production.**

CONCLUSION

Tax incentives have played an important role in increasing oil and gas production in the State of Montana which in turn has led to higher tax revenues from production and property taxes but also from higher income taxes paid by those employed by the oil and gas industry. With production from Elm Coulee field peaking, it is critical that Montana maintain the tax incentives that have been in place since 1995 in order to encourage new discoveries and the use of technology. I strongly encourage you to reject HB 598 and leave the current system of taxation and distribution of taxes intact.